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SECURITIES AND EXCHANGE COMMISSION  
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SECURITIES AND EXCHANGE COMMISSION

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ANNUAL AUDITED REPORT

FORM X-17A-5

PART III

DIVISION OF MARKET REGULATION

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING

11/1/03

MM/DD/YY

AND ENDING

12/31/03

MM/DD/YY

## A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Northern Trust Securities Inc.

OFFICIAL USE ONLY

FIRM ID NO

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

(No. and Street)

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

(Area Code -- Telephone No.)

## B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

KPMG LLP

(Name -- if individual, state last, first, middle name)

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- ☐ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions

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FINANCIAL

Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

SEC 17A-5 (3-91)

Persons who are so required to the collection of information contained in this form are not required to send copies of the form to the SEC. The form is valid only if it contains a valid 17A-5 control number.



SECURITIES AND EXCHANGE COMMISSION  
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DIVISION OF MARKET REGULATION

**NORTHERN TRUST SECURITIES, INC.**

Statement of Financial Condition

December 31, 2003

(With Independent Auditors' Report Thereon)



KPMG LLP  
303 East Wacker Drive  
Chicago, IL 60601-5212

## Independent Auditors' Report

The Board of Directors  
Northern Trust Securities, Inc.:

We have audited the accompanying statement of financial condition of Northern Trust Securities, Inc. (the Company), a wholly owned subsidiary of Northern Trust Corporation, as of December 31, 2003. This statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on the statement of financial condition based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Northern Trust Securities, Inc. as of December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Chicago, Illinois  
February 16, 2004



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

Chicago Office  
Celebrating  
100 years  
1904-2004

# **NORTHERN TRUST SECURITIES, INC.**

## **Statement of Financial Condition**

December 31, 2003

### **Assets**

Cash	\$ 5,711,482
Securities owned, at market value	7,442,831
Receivable from clearing broker	12,476,717
Other receivables	4,614,910
Note receivable from customer, net of allowance of \$1,823,573	—
Furniture, fixtures, and leasehold improvements, at cost, net of accumulated depreciation of \$420,963	335,937
Other assets	691,010
Total assets	<u>\$ 31,272,887</u>

### **Liabilities and Stockholder's Equity**

Securities sold, not yet purchased, at market value	\$ 105,649
Taxes payable to parent	1,787,641
Payable to employees	2,465,338
Accounts payable and accrued expenses	2,020,056
Total liabilities	<u>6,378,684</u>
Stockholder's equity:	
Common stock, \$0.01 par value, 20,000 shares authorized, 1,475 shares outstanding	15
Paid-in-capital	3,697,485
Retained earnings	21,196,703
Total stockholder's equity	<u>24,894,203</u>
Total liabilities and stockholder's equity	<u>\$ 31,272,887</u>

See accompanying notes to financial statements.

## **NORTHERN TRUST SECURITIES, INC.**

### **Notes to Statement of Financial Condition**

December 31, 2003

#### **(1) Organization and Nature of Business**

Northern Trust Securities, Inc. (the Company) is registered as a broker-dealer with the Securities and Exchange Commission (the SEC) and the National Association of Securities Dealers, Inc. (the NASD). The Company is an introducing broker-dealer and clears all transactions on a fully disclosed basis through another broker-dealer. The Company promptly transmits all customer funds and securities to such clearing broker. Substantially all customers of the Company are also clients of affiliated entities. The Company also trades for its own account for the intent to sell securities to meet client demands.

The Company is a wholly owned subsidiary of Northern Trust Corporation (the Parent).

#### **(2) Significant Accounting Policies**

A summary of the significant accounting policies which have been followed in preparing the accompanying financial statements is set forth below:

##### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### ***Furniture, Fixtures, and Leasehold Improvements***

Furniture, fixtures, and leasehold improvements are stated at cost.

##### ***Income Taxes***

In accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, an asset and liability approach to accounting for income taxes is followed. The objective is to recognize the amount of taxes payable or refundable for the current year, and then to recognize deferred tax assets and liabilities resulting from temporary differences between the amounts reported in the financial statements and the tax bases of assets and liabilities. The measurement of tax assets and liabilities is based on enacted tax laws and applicable tax rates.

The Company files a consolidated income tax return with its Parent. Under a tax-sharing agreement with the Parent, income taxes are computed based on the current year's results at the marginal statutory rate as if the Company filed separate Federal and state income tax returns.

#### **(3) Note Receivable from Customer**

The Company has fully reserved for an outstanding term note which it believes may not be collectible. The term note calls for monthly installments of \$30,000 plus accrued interest on the term note, with a final payment due on November 30, 2003, including the remaining principal balance. The note bears interest based on the prime rate.

# NORTHERN TRUST SECURITIES, INC.

Notes to Statement of Financial Condition

December 31, 2003

## (4) Securities Owned and Securities Sold, But Not Yet Purchased

Securities owned and securities sold, but not yet purchased, at market values, as of December 31, 2003 consist of the following:

	Securities owned	Securities sold, but not yet purchased
Corporate debt securities	\$ 98,283	—
U.S. Government and municipal obligations	7,266,475	7,229
Marketable securities	78,073	98,420
Total	<u>\$ 7,442,831</u>	<u>105,649</u>

## (5) Net Capital Requirements

The Company is a broker-dealer subject to the SEC Uniform Net Capital Rule (Rule 15c3-1). Under this rule, the Company is required to maintain minimum "net capital". The Company has elected to compute its net capital under the alternative method permitted by the rule, which requires that the Company maintain minimum net capital, as defined, equal to the greater of \$250,000 or 2% of aggregate debit balances arising from customer transactions, as defined, and any additional capital requirements for resale agreements. At December 31, 2003, the Company had net capital of \$20,813,381, which was \$20,563,381 in excess of required net capital.

## (6) Equipment and Leasehold Improvements

A summary of equipment and leasehold improvements is presented below.

	Original cost	Accumulated depreciation	Net book value
Furniture and fixtures	\$ 870	739	131
Office equipment	509,770	255,520	254,250
Computer equipment	246,260	164,704	81,556
Total equipment and leaseholds	<u>\$ 756,900</u>	<u>420,963</u>	<u>335,937</u>

## NORTHERN TRUST SECURITIES, INC.

### Notes to Statement of Financial Condition

December 31, 2003

#### (7) Income Taxes

Deferred taxes result from temporary differences between the amounts reported in the financial statements and the tax bases of assets and liabilities. Deferred tax liabilities and assets have been computed as follows:

Deferred tax liabilities:		
Accelerated depreciation	\$	75,193
State tax deductions		<u>147,069</u>
Gross deferred tax liabilities		<u>222,262</u>
Deferred tax assets:		
Deferred state taxes		145,368
Reserve for credit losses		638,251
Deferred compensation		<u>99,904</u>
Gross deferred tax assets		<u>883,523</u>
Net deferred tax assets	\$	<u><u>661,261</u></u>

No valuation allowance related to deferred tax assets has been recorded at December 31, 2003 as management believes it is more likely than not that the deferred tax assets will be fully realized.

#### (8) Fair Value of Financial Instruments

The financial instruments of the Company are reported in the statement of financial condition at market or fair values, or at carrying amounts that approximate fair values because of the short-term nature of the instruments.

#### (9) Off-balance Sheet Risk and Concentration of Credit

Customer transactions generally settle three business days after the trade date. If a customer does not complete the purchase or sale transaction, subsequent market fluctuation may require the Company to sell or purchase securities at prices that may differ from the original trade price. With regard to margin accounts, if a customer does not fund a margin call, security positions may be liquidated and the account may result in a deficit. As an introducing broker with customers throughout the United States, but primarily in the Midwest, the Company has agreed to indemnify its clearing broker for losses that the clearing broker may sustain from the customer cash and margin accounts introduced by the Company. For the year ended December 31, 2003, no indemnity payments were made to the clearing broker.

In the normal course of its business, the Company enters into long- and short-security positions. The risk of potential loss due to changes in the market may exceed the amounts recorded for such short security transactions.

The securities owned by the Company are primarily in U.S. Treasury, municipal, and federal sponsored entity obligations. The largest position of any single issuer, excluding the U.S. Treasury at December 31, 2003, was a municipal obligation, which amounted to \$440,252.

**NORTHERN TRUST SECURITIES, INC.**

**Notes to Statement of Financial Condition**

**December 31, 2003**

**(10) Legal Proceedings**

The Company is a defendant in legal proceedings incidental to its securities business. Management of the Company, after consultation with legal counsel, believes the resolution of these various matters will not result in any material adverse effect on the financial position or results of operations of the Company.

**(11) Cash and Securities Segregated Under Federal and Other Regulations**

Cash of \$3,000,000 has been segregated in a special reserve bank account for the benefit of customers under rule 15c3-3 of the Securities and Exchange Commission.

**(12) Subsequent Event**

A capital withdrawal of \$9,900,000 was approved and paid in January 2004.